



# County of Los Angeles CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012  
(213) 974-1101  
<http://cao.co.la.ca.us>

DAVID E. JANSSEN  
Chief Administrative Officer

December 16, 2003

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Yvonne Brathwaite Burke  
Supervisor Michael D. Antonovich

From: David E. Janssen  
Chief Administrative Officer

Board of Supervisors  
GLORIA MOLINA  
First District

YVONNE BRATHWAITE BURKE  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

## COUNTY BUDGET ACCOUNTABILITY

During the Supplemental Resolution on September 16, 2003, on a motion by Supervisor Molina, your Board instructed my office, in conjunction with the other County Departments, to provide detailed explanation for all budget variances and the impact on the adopted budget on a quarterly basis including trend analysis based on prior year expenditures and receipts; and to provide the internal procedural changes and controls needed to better monitor the budget throughout the fiscal year. Also, on Supervisor Knabe's amendment, my office was instructed to report on changing the start of the fiscal year to October 1 and a two year budget cycle.

### Budget Monitoring Practices

My staff met with several departmental representatives from the Auditor-Controller, Department of Public Social Services, Probation, and Treasurer Tax Collector to discuss ways to improve the budget monitoring including potential need for training, opportunities to better share information between the budget officers, and the need for improved reporting.

As a result of these meetings, the following changes to our current practices will be implemented which include:

- Making adjustments to department budgets midyear, when necessary. When reporting to the Board, the Chief Administrative Office (CAO), along with the departments, will identify significant issues impacting the current year budget and will recommend adjustments for the Board's consideration. This will allow proper alignment of the budget to the department's changing operations while keeping the Board informed of the changes.

- Identifying those departments that have budget status reports where the departments and CAO's projections are grossly different and providing the Board with a separate follow up report in 30 days. This will provide the Board with a more comprehensive analysis of the circumstances of that department's projection.
- Identifying and improving financial reports. Based on discussions with the Auditor/Controller, reports have been identified that may be revised to provide the departments and budget analysts with additional detail to perform budget monitoring and analysis.
- Training and increasing communication among staff.
- Providing historical information in the budget status report. The Budget Status Report will be revised to include prior years' adjusted budget and closing amounts.

The Attachment provides a brief description of the current practices in monitoring and reporting the budget status of each department and further discussion on the improvements to the current practices.

### **Changing the County's Fiscal Year**

The County is heavily dependent on State funding and changes to the State budget presents a significant impact to our budget. Since we are in the same fiscal cycle as the State, this impact becomes more apparent because we have to react to State changes in a short timeframe.

Although changing the fiscal year cycle seems to be a reasonable solution, it presents significant effort and cost which can include:

- A system redesign and reprogramming both countywide and departmental financial system. The State may still require a report on a fiscal year basis resulting in need to run redundant accounting records.
- Changes to the State Government Code that requires the adoption of a proposed budget by July 20 of each year and a final budget by October 2.

To the extent the State delays adopting their budget, the County will continually need to estimate the impact of actions still under consideration by the Governor and the Legislature regardless of the change in the start of the fiscal year.

Each Supervisor  
December 16, 2003  
Page 3

### **Implementing a Two-year Budget Cycle**

In FY 2000-01, we piloted the multi-year budget for three County departments. Due to the California State Constitution, State Government Code and County Code requirements for an annual budget, the pilot project reflected a two-year budget cycle with annual appropriations. Budgets for two succeeding years were developed in the first year.

The goal of the project was to determine the benefits of a two-year budget process and monitor the impact on workloads. Based on the first year of the project, the participating departments were not able to cite any advantages from the exercise. The major disadvantages identified were:

- Our dependence on the State and Federal governments for funding who are on annual budgets and legislative changes will be required to fully implement a multi-year budget.
- The County's current accounting system is not integrated with our budgeting system.
- The departments identified unresolved issues in the proposed first year budget which made planning for the second year more difficult. Also, the departments had to budget farther out in advance and this increased the difficulty in projecting future needs and revenues. At the time the pilot departments prepared their two-year budget they were approximately 20 months from the start of the second budget year.

If you have any questions or need additional information, please call me or your staff may call Jackie White at (213) 974-1155.

DEJ:DL  
JW:AC:vyg

c: Executive Officer, Board of Supervisors  
All Department Heads

## BUDGET MONITORING PRACTICES

My staff met with several departmental representatives from the Auditor-Controller, Department of Public Social Services, Probation, and Treasurer Tax Collector to discuss ways to improve the budget monitoring including potential need for training, opportunities to better share information among the budget officers, and the need for improved reporting.

Improvements identified to the current practices include (a) making adjustments to the departmental budget midyear, when necessary; (b) providing a separate CAO BSR where there is significant difference between the department's estimates and the CAO's estimates including a separate follow-up report; (c) identifying and improving financial reports; (d) training and increasing communication among staff and; (e) providing historical information in the budget status report.

### Current Practices

During the year, departments are required to provide my office with the status of their expenditures and revenue receipts compared to the adjusted allowance for submission to the Board. The frequency of providing the status is as follows:

- 1) Fifth Month Budget Status Report (BSR) – This is provided to the Board in January-February based on the CAPS information in November. This is the first status report that can be provided since sufficient actual information needed to prepare an estimate is not available prior to this time.
- 2) Sixth/Seventh Month BSR – During January and February, when departments are submitting their new fiscal year's budget request, they are required to include an updated status report. This is provided along with the Proposed Budget submission.
- 3) Ninth Month BSR – This status report is based on March CAPs information and is required to ensure that the Departments are still operating within their budgets and the year-end Fund Balance is estimated to determine the funding availability that may be used during the Final Changes Phase of the budget process.
- 4) Eleventh Month BSR – This status report is based on May CAPs information and is required to determine the department's potential status for the year-end closing and to refine the estimate of the Fund Balance available.

We will continue to provide the Board with the BSR as described above instead of the requested quarterly basis because of the initial delay in expenditure postings at the beginning of the fiscal year. The timing of these submissions is intended to provide information to the Board of the current year's budget status as the County goes through the budget process for the new fiscal year and allows the Board to consider issues that may affect the new budget year.

CAO budget analysts review these submissions and perform independent analysis to ensure that departments are operating within their approved budget authority. Potential

changes related to various programs, new issues brought before the Board, changes in the State's budget, and midyear implementation of programs are some elements that are considered when the status report is prepared.

A variance explanation is provided for those operating budgets that have deficits or surpluses of over \$1.0 million. Also, a variance explanation is provided for each department's overtime budget where the cost estimate is over \$500,000.

Each BSR includes a listing of all fixed assets the department plans to purchase in the current fiscal year and any change in the planned list of equipment is highlighted.

An analysis of the activities from prior year accounts payable and revenue accruals is also performed since these elements affect the final fund balance for the year.

#### Improvements to the Current Practices

Following are the major areas identified to improve the process, most of which were discussed with the departmental representatives:

a. Recommendations to Adjust Departmental Budgets Midyear

The CAO, along with the departments, will provide a more extensive explanation for the factors generating the variances when reporting the budget status. Significant issues with potential impact on the current year, but are not yet accounted for in the estimates, will also be identified.

In order to highlight significant changes to the Adopted Budget, we will recommend appropriate changes to the budget for the Board's consideration via a budget adjustment. This will allow further discussions with the Board, if necessary, of the factors that are impacting the departments' budget and recommended solutions to mitigate the budget impact.

b. Separate Report on Departments With Significant Variances from the CAO's Projections

When a significant difference between the departmental budget estimates and the CAO's estimates occurs, the CAO will provide the Board with an independent budget status report for that department. The department and the CAO will also report back to the Board 30 days from the date of the submission of the BSR and provide a comprehensive analysis of the causes of the major differences in both projections and indicate factors have been identified that could change either projection.

c. Improved Financial Reports

The staff from the Auditor-Controller (A/C) and my office met and identified improved financial reports to facilitate and improve the review of the departments' estimates. The participating departmental staff expressed interest in accessing these financial

reports. The A/C Systems Division will revise identified reports available on the Countywide Reporting Database to provide a better tool for the departments to use in their budget projections and trend analysis. When the reports become available, departmental staff will be trained on accessing these reports.

d. Training and Increased Communication Among Staff

In our continuing efforts to meet the County Strategic Plan and Goal for Workforce Excellence, we continue to assess the needs to improve the quality and needs of staff.

As of FY 2001-02, budget training was provided to all departments by the CAO, DHR and the CIO staff to highlight the major changes to budget instructions as well as ongoing requirements. In this current year's training, CAO staff will survey participants to determine if focused workshops are needed.

Staff from the participating departments also raised the need to improve the communication between their staff and the CAO analysts. Better communication among the staff will ensure timely distribution of information, clearer instructions of requirements and expectations, and provide better reporting to the Board. CAO staff will be meeting with the department staff after submission of each BSR to discuss matters affecting the projections and differences to the CAO estimates.

e. Provide Historical Data in the Budget Status Report

Beginning with the Ninth Month BSR, we will provide the adjusted budget and the closing actuals for the last two prior years. This will provide the Board with historical information and the ability to determine how each of the budgets closed compared to the adjusted budget for that fiscal year.

The improvements to the current budget practices as identified will allow better monitoring of the budget throughout the fiscal year.